

May 11, 2001

## Honorable Mayor and City Council:

Two years ago, the Council considered a two-year budget, the first in over a decade. As previously noted, consideration of a two-year operating budget yielded a number of benefits, not the least of which has been the ability to develop priorities over two years rather than the single-year period which had been the norm in recent years. In addition, substantial staff time was saved with respect to the preparation of a budget in the second year. These two factors have made the two-year operating budget a success for Hayward. Again, I applaud the Council for returning to a two-year format and I am pleased to submit a recommended budget for fiscal years 2001-02 and 2002-03.

Recent developments at the local, state and national level present a unique budgeting challenge. The stock market has been on a roller coaster ride, retirement nest eggs have been adversely impacted, "dot-coms" have boomed and busted, interest rates have declined and rolling blackouts are on everyone's mind. Yet, the economy appears to be maintaining course. For the moment, consumer spending continues, real estate values in the Bay Area remain healthy and unemployment remains relatively low—albeit changing daily in some sectors. Many economists believe that we will see an economic slowdown, but not a recession. For the most part, the budget presented herewith is predicated on this latter assumption. City revenues are assumed to continue to grow, but at a modest rate, and certainly less than the rate of growth experienced the last few years. The recommended enhancements rely on the assumption of moderate revenue growth and adhere to the Council's policy of matching current year expenditures with current year income. Most of the augmentations are to the City's General Fund, although other funds, such as the Water and Wastewater Funds, are affected as well. These changes are more fully discussed later in this message.

During this year's budget worksession, the Council discussed the state of the City's financial condition and received input from staff and members of the community. At the conclusion of the worksession, the Council provided direction to staff with regard to its priorities for the upcoming budget cycle. This two-year budget responds to these priorities.

#### TWO YEAR PRESENTATION FORMAT

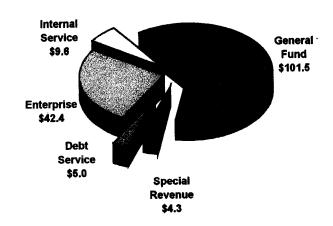
Although the recommended budget pertains to two fiscal years, in keeping with the Charter provision for an annual budget, the budget ultimately approved by the Council applies only to fiscal year 2001-02, with the second year considered a spending plan. However, it is this spending plan that will serve as the framework for the budget that will be presented to you next

Spring for formal action. As noted at the mid-year budget worksession, it is anticipated that the Council will consider very few changes to the fiscal year 2002-03 budget. Indeed, it is expected that the only changes to be entertained by the Council will be those that are due to unforeseen events or which concern significant new initiatives that cannot await consideration until the next two-year cycle. To do otherwise, (that is, to revisit second-year spending priorities) will defeat the purpose and efficiencies realized from the preparation of a two-year budget.

# **BUDGET OVERVIEW—2001-02**

The recommended 2001-02 operating budget is a balanced spending plan totaling \$162.8 million for all funds. Of this amount, \$101.5 million is for the General Fund, \$42.4 million is for Enterprise Funds, \$9.6 million is for Internal Service Funds, \$4.3 million is for Special Revenue Funds, and \$5.0 million is for Debt Service Funds. The following chart illustrates the composition of the City's operating budget by fund type.

City of Hayward Operating Budget—All Funds
(\$ In Millions)



This message focuses primarily on the General Fund, as this is where most City's services are budgeted. By way of summary, the following table provides an overview of the total General Fund revenues and expenditures as recommended for 2001-02.

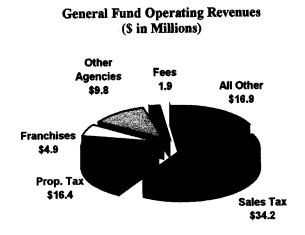
## 2001-02 General Fund Revenues and Expenditures (\$000's)

Revenues	\$ 84,098
Expenditures	81,750
Transfers In	19,321
Transfers Out	19,769
Beginning Fund Balance	21,537
Ending Fund Balance	\$23,437

Not only are recurring General Fund expenditures in line with recurring revenues, but if estimated revenues are realized, the budget forecasts a surplus as well. Further, General Fund reserves have been maintained at the level as provided by Council policy. The purpose of the reserves is to provide the General Fund with additional resources during periods of economic uncertainty and to meet necessary liquidity requirements.

# Revenue Estimates - Sources of Funds

General Fund revenues come from several sources, the most significant of which are Sales Tax and Property Tax. However, there are other important revenue sources for the General Fund, such as the Real Property Transfer Tax and the Motor Vehicle In-Lieu Tax. The chart below provides a quick overview of General Fund revenue sources.



Sales Tax. Sales tax revenue is estimated at about \$34.2 million for 2001-02. This represents an increase of approximately \$1.3 million (or 4%) over the most recent estimate for 2000-01. This growth rate is far less than the actual growth rate which this revenue has enjoyed over the past few years. However, in view of the economic uncertainties facing the state and Hayward, staff believes this is both a realistic and realizable growth factor. It will be important, as it is in any year, to carefully monitor this revenue source to determine if there are any signs of weakening. Should that become the case, then the issue will be addressed at the budget worksession early next year.

Property Tax. This revenue source continues to reflect both an active real estate market in terms of the number of sales and a market where values outpace inflation. At mid-year, property tax revenue was adjusted upward from the 2000-01 budget by approximately \$500,000. Staff believes that property tax will continue to show strong growth through 2001-02 and based on collections to date has increased the 2000-01 estimate by an additional \$200,000. A growth factor of 5% has been applied to the revised 2000-01 mid-year estimate to arrive at the 2001-02

revenue estimate. In view of the pace of real estate activity and preliminary estimates of assessed value growth, this growth rate is "cautiously optimistic".

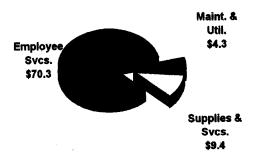
Other Sources. In general, other revenue sources are estimated to see some minor increases for 2001-02. Given the financial uncertainties discussed earlier, staff has been conservative in estimating the balance of revenues for the General Fund. One final note: The budget makes the assumption that the State will take no action that will place the Motor Vehicle In-Lieu at risk. While there is currently no legislation in process that would affect this critical revenue source, it is important to monitor the State's actions in this area.

# Expenditure Projections - Use of Funds

The overall effect of continued but moderate revenue growth allows the City to maintain reserves, fulfill contractual obligations with regard to salary adjustments, and address other operating requirements.

The largest expenditure category for the General Fund is, of course, Employee Services. Given the fact that local government, including the City of Hayward, is a service provider, this is no surprise. Other expenditure categories include Maintenance and Utilities, Services and Supplies and Capital Expense. The pie chart, which follows, provides a quick overview of the relationship of these expenditure categories.

# General Fund Operating Expenditures (\$ in Millions)



Employee Related Costs. Personnel salary and benefit expenses comprise approximately 86% of the City's General Fund operating costs. For 2001-02, all negotiated salary and benefit increases are factored into the expenditure assumptions. In addition, fiscal year 2001-02 has an additional pay period or 27 pay periods versus the usual 26 pay periods. By the end of 2000-01, the City will have reserved \$2.5 million to be used in 2001-02 to fund this extraordinary expense. It should be noted that this is a timing event and City employees do not receive an "extra" pay period.

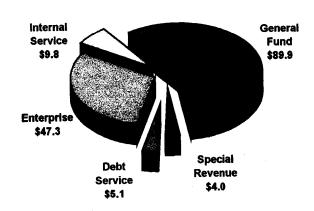
Non-Personnel Expenditures. The other primary expenditure categories, Maintenance and Utilities and Supplies and Services and Capital have been increased where necessary to meet contractual, mandated or otherwise unavoidable costs and where the maintenance of service levels requires the acquisition of specific goods or services. In addition, the budget provides funds in selected departments for efficiency improvements and to support efforts directed toward meeting the Council's programmatic priorities for the next year.

As previously stated, energy costs are a "wild card" from a budgeting standpoint. However, the budget which is submitted to you reflects known energy costs increases to date. For example, for the General Fund, costs are up approximately 34%, or about \$345,000 over last year, requiring an increase in funding. In order to reduce these expenses over the long term, \$50,000 have been earmarked to initiate various energy conservation measures. As well, staff intends to actively pursue funding from the state pursuant to recently adopted legislation.

#### **BUDGET OVERVIEW—2002-03**

The recommended 2002-03 operating budget is a balanced spending plan totaling \$156.1 million for all funds. Of this amount, \$89.9 million is for the General Fund, \$47.3 million is for Enterprise Funds, \$9.8 million is for Internal Service Funds, \$4.0 million is for Special Revenue Funds, and \$5.1 million is for Debt Service Funds. The following chart illustrates the composition of the City's operating budget by fund type.

City of Hayward Operating Budget—All Funds (\$ In Millions)



By way of summary the following table provides an overview of the total General Fund revenues and expenditures as recommended for 2002-03.

#### General Fund

# Revenues and Expenditures (\$000's)

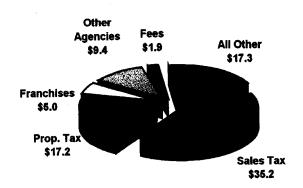
Revenues	\$ 85,985
Expenditures	83,840
Transfers In	4,442
Transfers Out	6,061
Beginning Fund Balance Ending Fund Balance	23,437 \$23,963

As is the case for 2001-02, recurring General Fund expenditures are in line with recurring revenues; a modest surplus is also projected. In addition, General Fund reserves have been maintained at the amount specified by Council, which is \$10.5 million.

# Revenue Estimates - Sources of Funds

The chart below provides a quick overview of projected General Fund revenue sources for 2002-03.

# General Fund Operating Revenues (\$ in Millions)



Sales Tax. Sales tax revenue is estimated at \$35.2 million for 2002-03. This represents an increase of slightly more than \$1 million (or 3%) over the estimate for 2001-02. This growth rate reflects Council's direction provided at the mid-year budget session. It will be important, as it is in any year, to carefully monitor this revenue source to determine if there are any signs of weakening.

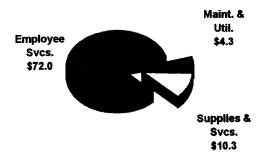
**Property Tax.** It is anticipated that property tax will continue to show strong growth in 2002-03. The revenue estimate for 2002-03 is up over 2001-02 by approximately \$800,000 or 5%. The key assumption for 2002-03 is that the Bay Area real estate market will continue to be active resulting in upward pressure on real estate values.

Other Sources. With respect to other revenue sources it is estimated that there will be maintenance of existing revenues with some growth in a few revenue categories. This approach reflects the fact that predicting revenues out two years carries a higher degree of risk, particularly in light of current economic circumstances.

#### **Expenditure Projections – Use of Funds**

Just as is the case in 2001-02, the largest expenditure category for the General Fund for 2002-03 is Employee Services. The pie chart, which follows, provides a quick overview of the relationship of all expenditure categories.

# General Fund Operating Expenditures (\$ in Millions)



Employee Related Costs. Salary and benefit increases for 2002-03 are based on known increases as contained in labor agreements or are consistent with increases authorized for 2001-02.

Non-Personnel Expenditures. The other primary expenditure categories, Maintenance and Utilities and Supplies and Services and Capital have been increased where necessary to meet contractual, mandated or otherwise unavoidable costs and where the maintenance of service levels requires the acquisition of specific goods or services. In addition, the budget provides funds in selected departments for efficiency improvements and to support efforts directed toward meeting the Council's programmatic priorities for the next year.

## **BUDGET HIGHLIGHTS AND COUNCIL PRIORITIES**

This section presents an overview of the significant changes contained in this recommended budget. The items noted below reflect the Council's discussion and guidance provided to staff

earlier this year as part of the mid-year budget worksession. As this is a summary presentation, supplemental information has been provided to Council under separate cover.

#### **Public Safety**

The budget continues to reflect the Council's priority with regard to public safety issues. In recent years, the Council added a number of positions in the Police Department that are partially or fully funded with grants. As structured, these grants provide for declining revenue over a two or three year time period. As a result, if these positions are to be maintained, a greater burden is placed on the General Fund. Yet, failure to accept this funding responsibility would result in degradation of service and in the progress the City has made in making Hayward a safer community. Accordingly, the recommended budget maintains these positions by increasing the General Fund allocation in both years. Representing approximately \$1 million, a total of 10.5 positions are affected, as follows:

- Four Police Officers (Patrol)
- One Sergeant (Crime Prevention and Ambassador Program)
- One Officer/ 5 Counselor (Domestic Violence Unit)
- Two Officers/One CSO (School Traffic Safety Program)
- One Administrative Analyst II/ One Police Records Clerk (Crime Analysis Unit)

In addition to maintaining the aforementioned positions, the budget recommends the funding for new positions as well. In 2001-02, two officers and five community service officer positions are added to enable a neighborhood and school safety program to be initiated. The cost associated with this effort is offset through a combination of grant funding and parking citation revenue. Under this program, staff will be in a position to address traffic and safety issues in and around schools and neighborhoods, and also cause illegally parked vehicles to be towed away.

Other changes in 2001-02 include the addition of one detective position, the first such increase since 1986. The additional detective position will enable the department to respond to an increase in criminal activity, activity which is increasingly of a complex and sophisticated nature.

In 2002-03, the most significant change includes the addition of five police officers and one detective. The addition of the police officer positions continues implementation of a multi-year staffing plan approved by the Council a few years ago. At a cost of some \$500,000, the additional positions will enhance police presence in the community and increase patrol capabilities.

In the Fire Department, a Battalion Chief position is added in the first year to oversee the department's overall training effort. Net cost to the General Fund is nominal, as the addition of this position is accomplished by deleting an existing staff Captain position.

## **Service Level Enhancements**

At the mid-year budget session, the Council discussed the possibility of increasing the hours of operation at the library. In response, the recommended budget proposes to open both facilities

longer than is presently the case. The Main will see an increase of four hours Thursday night, enabling the facility to remain open until 9:00 PM. At Weekes, a total of ten hours are added, enabling the branch to open two hours earlier on Wednesday, and remain open four hours later (until 9:00 PM) on Tuesday and Thursday. With this change, public service hours will be the same at both facilities. In the aggregate, the library system will be open a total of 112 hours per week versus the current level of 98 hours. The impact to the General Fund is approximately \$392,000 in the 2001-02 and \$407,000 in 2002-03. This augmentation results in the addition of 7.9 full time equivalent positions, including a Librarian II at Weekes. The other important change relates to the so-called book budget, where an additional allocation of \$50,000 per year is recommended.

In the area of development processing, the recommended budget includes the addition of two positions in the planning division (one Landscape Planner and one Assistant Planner), as well as a permit technician in building inspection. As noted in February, the quantity of land use applications filed with the City remains steady, and a few large applications are projected to be processed during the upcoming fiscal year. The addition of the two positions in planning is necessary to address the known and anticipated volume of activity. The permit technician position was authorized on an "overhire" basis this year and is key to meeting our commitment to review and act upon building permit applications within specified time periods. Costs associated with these positions are largely offset by permit fee revenue.

At the February worksession, staff noted it would be exploring ways to improve services to the neighborhoods. The recommended budget proposes the start of what staff is calling Neighborhood Partnerships. More information is provided elsewhere, but suffice it to say that the intent of this effort is to combine City resources with the talents of the residents themselves to improve the quality of life in the neighborhoods. A project manager and related clerical support is provided for this purpose, as are funds to initiate a tool-lending service. Total cost to the General Fund is \$128,000 in 2001-02, and \$133,000 in 2002-03.

In furtherance of the goal of improving the appearance of the City, the budget adds two field personnel in 2001-02 and one in 2002-03 to the landscape division to provide increased maintenance along the major thoroughfares and entrances into Hayward. Lack of staff in recent years has impaired our ability to maintain our gateways at a sustained and acceptable level, a condition that will be reversed with the addition of the recommended staff. The cost to the General Fund is about \$201,000 in year one and \$208,000 in year two.

Changes in state law, combined with increases in workload, result in recommended staffing changes in the animal control bureau. Specifically, funds are included to provide increased staffing at the shelter. The addition of two animal control attendant positions will enable staff to take better care of the animals and to better maintain the shelter itself. As a by-product, existing animal control officers (i.e., the field personnel) will be able to focus on patrol duties rather than split their time between doing work in the shelter and performing fieldwork.

#### **New Initiatives**

In a number of forums the Council has expressed the view that it is critically important to address the needs of young people. The recommended budget proposes a new effort in this

regard. Working in concert with the Hayward Area Recreation and Park District, a youth center is proposed to be established at Weekes Park. As you know, when the Weekes library reopens later this fall, the City will no longer need the structure that is serving as an interim branch. By continuing to lease this facility, though, the building can be put to an important use. Specifically, HARD proposes to allocate funds to program events and deliver services to youth at this location, if the facility is made available to it for this purpose. Although the specifics are still under development by HARD, the recommend budget includes funding for lease payments through both budget years.

From the standpoint of long term planning, the budget envisions two important initiatives. First, in the second year, staff proposes to work on the possible annexation of the Mt. Eden area. Also in the second year, in anticipation of a new redevelopment area, funds are included to develop a concept plan for the South Hayward BART station. Finally, existing redevelopment staff is proposed to be augmented with the addition of a project manager position in 2002-03, in recognition of the growth in overall responsibilities and focus for the Agency.

During the budget worksession, it was suggested that consideration be given to renewing our efforts at marketing Hayward as an attractive business location. The recommended budget includes \$100,000 in the Community and Economic Development Department to develop appropriate marketing material to showcase Hayward as a place to do business. This subject has been reviewed with the Economic Development Committee and EDC members offered many useful observations and important insight with regard to attainment of the overall goal. Staff will continue to work with the EDC in this regard.

At the budget worksession, numerous comments were offered in support of creating a hotel/conference facility in Hayward. If this is to become a reality, it may be necessary for the City to assume a proactive approach and not simply wait for interested parties to contact us. For such an effort to be successful, it may be necessary for the City to entertain financial participation in such a venture. Accordingly, the budget recommends that the Council reserve funds from projected surpluses at the end of the current year. Specifically, the Council is asked to consider reserving \$1,250,000. Reserving the funds does not equal spending the dollars. It does mean, however, that funding has been set aside in the event it becomes necessary to call upon such resources to make a hotel/conference facility a reality. Because the funds are only reserved, specific Council authorization would be required to expend such funds.

#### **Information Technology**

Over the past several months staff has been working on an Information Technology Work Plan. This work plan is comprehensive in scope and addresses numerous technology needs in the City. The work plan has been presented to the Council Technology Application Committee and the Committee unanimously supports its approval. Specific comments developed by the CTAC will be shared with the Council during your review of the budget. The work plan consists of one-time expenditures of approximately \$2.7 million and on-going costs of approximately \$465,000 per year. A copy of the work plan and its funding components has been provided to Council under separate cover.

#### **Internal Efforts**

As previously noted, training and development of City employees was curtailed as a result of prior budget reductions. This budget proposes the addition of a position (and related support funding) in Human Resources to restore this effort. By focusing on skill development and other technical training, employees will be better equipped to render service to the public.

Another casualty of the recession previously discussed with you concerns the Equipment Fund. This budget makes significant headway in addressing this condition. First, it is recommended that \$500,000 be reserved at year-end to be used next year to address a number of equipment needs, most notably replacing a number of older police vehicles. Second, the budget recommends the restoration of internal rates to both reflect actual costs and to replenish this fund to a level where it can support on-going replacement of older vehicles. In this regard, rates have been increased by \$700,000 in the first year and \$1,400,000 in the second. Lastly, a total of five fire apparatus are scheduled to be replaced over the next two years. Funding is accomplished through a combination of developer contributions and reuse of debt service capacity that will be retired within this timeframe.

#### **Infrastructure**

Although not a part of this budget presentation, it should be noted that pursuant to your direction, considerable effort is devoted to maintaining and upgrading the City's infrastructure. While more specific information may be found in the recommended Capital Improvement Program Budget, one particular item merits mention here. To implement the mandatory sidewalk repair program, it is necessary to add staff, and the recommended budget includes the addition of an Assistant Civil Engineer position in 2001-02. (While not a part of the general fund, new staffing has also been provided in the water and sewer funds, including a Utilities Maintenance Mechanic, a Groundskeeper II supporting Water Conservation, a Water Pollution Source Control Inspector and a Utilities Engineer.) To explore the viability of reestablishing the industrial assessment district, General Fund dollars have been transferred to the CIP budget to undertake this effort.

#### **CLOSING REMARKS**

I believe that 1999-2001 has been a good period year for the City. This next two-year budget contains many exciting projects and goals for the City. Several critical areas of the City's operations and service needs are addressed with additional funding, while at the same time keeping expenditures in check. The result is a budget, which I believe has necessary flexibility to survive an economic downturn. It is also a budget that I believe recognizes the objectives that Council has identified. We all look forward to working with Council to implement the many important projects contained in the budget and to continue to provide excellent customer service to Hayward residents.

I would be remiss if I did not acknowledge and thank all of the individuals who are instrumental in developing and producing this budget. The City of Hayward is fortunate to have a competent and dedicated staff and I extend my sincere thanks to those responsible for their efforts toward the completion of this budget.

Respectfully submitted,

Jesús Armas City Manager

# ATTACHMENTS TO THIS REPORT CAN BE VIEWED IN THEIR ENTIRETY IN THE CITY CLERK'S OFFICE.